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MEMORANDUM FOR THE DOMESTIC POLICY COUNCIL

FROM: RALPH BLEDSOE Ralph Bledsoe
Executive Secretary

SUBJECT: Domestic Policy Council Meeting on July 24

Attached are an agenda and papers for the Domestic Policy Council meeting scheduled for Wednesday, July 24, 1985 at 2:00 p.m. in the Roosevelt Room. Two agenda items will be covered, along with a discussion of Council working groups.

The first agenda item will include a review of Flat-Rate Per Diem proposals. Members of Congress have discussed introduction of legislation mandating new travel policies, including increases in per diem rates. GSA and OMB have views on Administration actions that should be considered, consistent with executive branch responsibilities. Terry Golden, GSA Administrator, will present this issue to the Council. No papers are provided in advance, but information will be handed out at the meeting.

The second agenda item will include discussion of the new Federal Employees Retirement System, which is to be in place by January 1, 1986. This system will cover Federal employees hired since January 1, 1984 and numerous elected and appointed officials. Senators Roth and Stevens have been preparing a bill, and wish the Administration's views on certain features to be included in their bill. Joe Wright will describe the proposals and status of this issue. An OMB paper is included for your review prior to the meeting.

In addition to the above, the Chairman Pro Tempore will discuss the Domestic Policy Council's working groups.

Attachments

THE WHITE HOUSE

WASHINGTON

DOMESTIC POLICY COUNCIL

Wednesday, July 24, 1985

2:00 p.m.

Roosevelt Room

AGENDA

1. Flat Rate Per Diem

2. Federal Employees Retirement System

OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

July 22, 1985

MEMORANDUM FOR THE DOMESTIC POLICY COUNCIL

SUBJECT: New Retirement System for Federal Employees Covered by Social Security

Introduction

Senators Roth and Stevens are co-sponsoring legislation to create a new retirement system for Federal employees covered by Social Security. The Office of Personnel Management and the Office of Management and Budget support the overall Roth/Stevens design for the new system. The Chief of Staff has been apprised by the Senators of the likely contents of their bill and has indicated general support of their approach, with the caveat that a cost-of-living adjustment giving 100 percent of the increase in the Consumer Price Index would be unacceptable.

Background

When Congress extended Social Security coverage to Federal employees hired after December 31, 1983, it created the need for a new retirement system to supplement Social Security benefits. (The Civil Service Retirement System, which covers Federal workers generally, was designed to apply to people without Social Security coverage, so it is inappropriate and too expensive to use it for the new group.)

Congress recognized the need for a new retirement system, but was not prepared to create one at the time Social Security coverage was extended. With Administration support, Congress set up a two-year transition arrangement for new employees: they pay 1.3 percent of salary to CSRS (instead of 7 percent) plus the Social Security tax and are eligible for CSRS benefits offset by Social Security benefits.

This arrangement expires December 31, 1985. If a new system is not in place and legislation is not enacted to extend the transition scheme, post-1983 employees will have to pay the full 7 percent to CSRS and approximately 7 percent to Social Security.

Action to Date

- The President's 1986 Budget indicated that the Administration would seek a new retirement system costing about 20 percent of payroll, including the employer's Social Security tax, and using a defined contribution approach for at least part of the benefits. (A defined contribution plan specifies how much the employer will put aside towards an employee's retirement; the actual benefits are determined at the time of retirement based on the amount, including contributions and earnings, to the employee's credit.)

o In March, OPM submitted a legislative proposal to OMB to establish a new retirement system. It was circulated to the agencies for comment. The agencies expressed serious reservations about the OPM proposals because they were concerned that a purely defined contribution approach shifted too much risk to employees and contained no incentives for employees to continue Government employment in order to maximize their retirement benefits. After reviewing the agency comments, OPM decided to rethink its proposal and has chosen not to redesign or resubmit it primarily because of agreement with OMB on positive developments in the Roth/Stevens efforts to fashion an acceptable plan at a reasonable cost.

Roth/Stevens Plan

Senators Roth and Stevens have been working together over the last several months to prepare a bill for a new retirement system, with potential Democratic support fading in and out of the picture. They are pressing hard to introduce the bill before the August recess. The details of the Roth/Stevens plan are not yet settled but the outline of the plan has been set. It follows closely the practices of the private sector in providing for employee retirement and consists of three tiers:

1. Social Security provides the basic protection against death, disability, and retirement.

2. A defined benefit plan provides the second source of retirement income, with a disability insurance plan as well.

   o Benefits would be calculated based on length of service and high-five-year average salary (the current CSRS also uses this defined benefit approach but is based on a high-three salary).

   o Limited protection against inflation would be provided by increasing benefits automatically for a portion of any increase in the Consumer Price Index (CPI). A cost-of-living adjustment between 50 and 75 percent of the CPI is being discussed.

3. A Thrift Plan provides employees an opportunity to save current income to increase their own retirement benefits.

   o Employee contributions to the Thrift Plan would be tax deferred, i.e., income tax would be collected when the money is withdrawn from the plan rather than when the employee earns the money.

- o The Government would match employee contributions to the plan (at a rate between 50 cents and $1.00 from the Government for each employee dollar).

- o Employees would be able to choose among several investment funds--e.g., a Government Securities fund, a fixed income fund, a stockmarket fund.

- o A new off-budget agency would be created to administer the Thrift Plan.

The cost of the Roth/Stevens plan is within the range contemplated by the Budget. Depending on the Senators' final decisions, the cost will be between 19 and 22 percent of payroll. This compares to the cost to the Government of the current CSRS, using OPM economic assumptions of 28 percent of payroll.

Generally, benefits under the Roth/Stevens plan would be better than benefits under CSRS for employees who leave before retirement age and for employees who work to age 62. Benefits would not be as liberal as at present for those who retire at the early age of 55.

Law enforcement officers, firefighters, and air traffic controllers would continue to be eligible for early retirement, though at age 55 rather than 50, with unreduced benefits. The Foreign Service Retirement System and the CIA Retirement and Disability System would not be affected by the Roth/Stevens bill.

Employees covered by CSRS would be permitted to elect to enter the new system, in which case the benefits they have earned under CSRS would be preserved and subsequent benefits would be earned under the new system.

Next Steps

The Roth/Stevens proposal has general Administration support (with the caveat that full COLA is unacceptable). When the bill is introduced, it will be circulated to agencies for comment and the Administration will seek to resolve any particular problems that are found.